

Message Text

CONFIDENTIAL

PAGE 01 STATE 113857
ORIGIN COME-00

INFO OCT-01 EUR-12 IO-13 ISO-00 EB-08 TRSE-00 DOTE-00
CIAE-00 INR-10 NSAE-00 STR-07 L-03 OPIC-03 /057 R

DRAFTED BY COMMERCE:RDHARDING:PRM
APPROVED BY EB/ITP:WGBARRACLOUGH
TREASURY:WWARTHIN
-----020780 050037Z /62

R 042003Z MAY 78
FM SECSTATE WASHDC
TO AMEMBASSY OTTAWA
INFO AMCONSUL TORONTO
AMEMBASSY BONN
USMISSION GENEVA

C O N F I D E N T I A L STATE 113857

E.O. 11652: N/A

TAGS: ETRD, CA

SUBJECT: CONSULTATIONS ON CANADA'S PLANS TO EXPAND AUTO
PARTS DUTY REMISSION PROGRAM

1. SUMMARY: CONSULTATIONS HELD IN OTTAWA APRIL 27 CONFIRM-
ED THAT CANADIANS ARE PROCEEDING WITH EXPANSION OF DUTY
REMISSION PROGRAM FOR AUTO PARTS AND EXPECT MINISTERIAL
APPROVAL TO IMPLEMENT THE SCHEME IN TIME FOR 79 MODEL
YEAR. PROGRAM IS AIMED PRIMARILY AT ENCOURAGING VOLKSWAGEN
PURCHASES OF CANADIAN PARTS FOR USE IN ITS PENNSYLVANIA
PLANT. USDEL EXPRESSED REGRET AT CANADIAN DECISION
AND WARNED THAT U.S. AUTO PARTS MANUFACTURERS WHO SAW
THEMSELVES DISADVANTAGED BY EXPANDED PROGRAM COULD SEEK
RECOURSE AGAINST WHAT IN ESSENCE IS EXPORT SUBSIDY. CAN-
DEL POINTED TO NUMEROUS INCENTIVES THAT VOLKSWAGEN RECEIVED
TO LOCATE IN PENNSYLVANIA AND IMPLIED THAT GOC MIGHT BE ABLE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 113857

TO COUNTERVAIL AGAINST VOLKSWAGEN EXPORTS TO CANADA. RE
DUTY REMISSION SCHEME FOR TV RECEIVERS, CANDEL SAID PROGRAM
AIMED AT PHASING OUT INEFFICIENT PARTS OF INDUSTRY, AS
DEMONSTRATED BY MTN OFFER OF DUTY ELIMINATION ON RECEIVERS.
END SUMMARY.

2. CANDEL, CHAIRED BY RANDY GHERSON OF MINISTRY OF

INDUSTRY, TRADE AND COMMERCE, REVEALED THAT ORIGINAL PLAN

TO EXPAND THE AUTO PARTS DUTY REMISSION PROGRAM HAD UNDERGONE MAJOR REVISION SINCE U.S. HAD FIRST REQUESTED CONSULTATIONS LAST YEAR. CANADIANS HAD ORIGINALLY EXPECTED TO EXCLUDE U.S. TRADE FROM THE PLAN. HOWEVER, OPENING OF VOLKSWAGEN FACILITY IN NEW STANTON WITH EXTENSIVE ASSISTANCE FROM STATE OF PENNSYLVANIA AND THE POSSIBILITY OF OTHER FOREIGN MANUFACTURERS OPENING FACILITIES IN US ALTERED GOC THINKING. TO OBTAIN SOME "MARGINAL" ADVANTAGE FROM VOLKSWAGEN DECISION TO INVEST IN NORTH AMERICA, GOC MODIFIED THE EXPANDED SCHEME TO INCLUDE THE US. PROGRAM WOULD ALLOW VOLKSWAGEN AND OTHER NON-NORTH AMERICAN MOTOR VEHICLE MANUFACTURERS WHO MAY WISH TO PARTICIPATE IN PROGRAM TO RECEIVE DUTY REBATE ON FINISHED VEHICLES EQUAL TO PURCHASES OF CANADIAN PARTS. NEW PLAN WOULD REMOVE EXISTING PROGRAM'S LIMITATION ON PARTS ELIGIBLE FOR DUTY REMISSION. FOR EXAMPLE, VOLKSWAGEN WOULD NOW BE ELIGIBLE FOR FULL REMISSION ON VALUE OF PARTS PURCHASED FROM CANADA REGARDLESS OF NUMBER OF CARS EXPORTED TO CANADA.

3. CANDEL INDICATED THAT VOLKSWAGEN US ALREADY HAS MADE COMMITMENT TO PURCHASE SOME PARTS FROM A CANADIAN SUPPLIER, BUT WOULD ONLY BENEFIT FROM PROGRAM IF NEW COMMITMENTS ARE MADE ABOVE A NEGOTIATED THRESHOLD. IF THRESHOLD
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 113857

IS MET, REBATE WOULD BE FOR ALL PARTS ON A DOLLAR FOR DOLLAR BASIS. THRESHOLD WOULD BE ADJUSTED UPWARD AS MARKET GROWS.

4. DOWNPLAYING IMPACT OF EXPANDED PROGRAM, CANDEL NOTED THAT MOST OPTIMISTIC ESTIMATES INDICATE THAT TOTAL WORLD WIDE VOLUME OF CANADIAN VALUE ADDED IN VOLKSWAGENS OVER NEXT FIVE YEARS WOULD BE C\$30 MILLION, WHICH WOULD BE SMALL IN RELATION TO TOTAL TRADE. CANDEL NOTED NEW STANTON PLANT HAS LIMITED CAPACITY. CANADIAN PARTS PRODUCTION IS LIKEWISE LIMITED BY CAPACITY AND LIMITED VARIETY OF PRODUCTS.

5. DESPITE LIMITATIONS, CANDEL POINTED OUT THAT EXPANDED PROGRAM WOULD BE BENEFICIAL FOR SMALL INDEPENDENT CANADIAN PARTS PRODUCERS WHO HAVE LOBBIED FOR GOC ASSISTANCE. PURPOSE OF PROGRAM WAS TO PROVIDE ASSURANCE TO THESE AUTO PARTS PRODUCERS OF OPPORTUNITY OVER A PERIOD OF TIME TO ATTRACT NEW INVESTMENT OR PHASE OUT.

6. US DEL, CHAIRED BY BARRACLOUGH (STATE), REPLIED THAT DUTY REMISSION SCHEME CAN BE CONSIDERED A SUBSIDY

TO EXTENT GOC REDUCES CUSTOMS REVENUES TO ENCOURAGE EXPORTS. IN ANY CASE IT IS CLEAR THAT PROPOSED PLAN

SEEKS TO BENEFIT CANADIAN PARTS PRODUCERS AT EXPENSE OF U.S. PARTS MANUFACTURERS AND COULD ENCOURAGE LATTER TO SEEK RELIEF BY FILING A PETITION FOR IMPOSITION OF CVD'S OR ALLEGING UNFAIR TRADE PRACTICES UNDER SECTION 301. GOC SHOULD UNDERSTAND THAT THIS IS A RISK THEY RUN IF THEY IMPLEMENT THEIR PROPOSAL. AS TO POTENTIAL EFFECT OF THE PROPOSAL, USDEL DREW PARALLEL WITH CANADIAN DUTY REMISSION PROGRAM FOR COLOR TELEVISIONS AND NOTED CANADIAN COLOR TELEVISION EXPORTS HAD INCREASED DRAMATICALLY FOLLOWING PROGRAM'S ESTABLISHMENT.

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 113857

7. CANDEL REPLIED THAT DUTY REMISSION SCHEME FOR TV RECEIVERS AND OTHER PARTS WAS DIRECTED AT PHASING OUT INEFFICIENT PORTIONS OF THE CANADIAN TV MANUFACTURING INDUSTRY. CANDEL CITED ITS MTN OFFER TO ELIMINATE CANADIAN DUTY ON TV RECEIVERS AS EVIDENCE OF THIS PHASE-OUT PROGRAM.

8. CANDEL CONCLUDED THAT AUTO PARTS DUTY REMISSION SCHEME WOULD NOT PERMIT IDENTIFICATION OF SUBSIDY WITH PRODUCT. IN THISWAY, CANDEL ASSERTED, PROGRAM WAS "NOT UNLIKE DISC." CANADIAN PARTS MANUFACTURERS WOULD GET NOT DIRECT BENEFIT FROM PROGRAM APART FROM OPPORTUNITY OF INCREASED SALES. FURTHERMORE, PROGRAM WOULD HAVE NO PRICE EFFECT ON AUTO PARTS IMPORTED INTO US. SINCE CANADIAN AUTO PARTS DESTINED FOR VOLKSWAGEN WOULD ENTER DUTY FREE UNDER US-CANADIAN AUTOMOTIVE AGREEMENT, US WOULD HAVE TO SHOW INJURY PRIOR TO COUNTERVAILING.

9. CANDEL PROMISED TO BRING US VIEWS TO ATTENTION OF MINISTERS WHEN EXPANDED PROGRAM PRESENTED. CHRISTOPHER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AIR POLLUTION, EQUIPMENT, AUTOMOBILES
Control Number: n/a
Copy: SINGLE
Draft Date: 04 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE113857
Document Source: CORE
Document Unique ID: 00
Drafter: RDHARDING:PRM
Enclosure: DG ALTERED
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780191-0524
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780592/aaaadaqh.tel
Line Count: 157
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 15d798a4-c288-dd11-92da-001cc4696bcc
Office: ORIGIN COME
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2790219
Secure: OPEN
Status: NATIVE
Subject: CONSULTATIONS ON CANADA'S PLANS TO EXPAND AUTO PARTS DUTY REMISSION PROGRAM
TAGS: ETRD, CA
To: OTTAWA
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/15d798a4-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014